

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 USIA-15 SS-20 NSC-07 PA-04 PRS-01

DRC-01 AID-20 CEA-02 CIAE-00 COME-00 EB-11 FRB-03

INR-11 IO-14 NEA-14 NSAE-00 RSC-01 OPIC-12 SP-03

CIEP-02 LAB-06 SIL-01 SWF-02 OMB-01 /188 W

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FM AMEMBASSY ROME

TO SECSTATE WASHDC 5941

INFO AMEMBASSY BERN

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AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY OTTAWA

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

TREASURY DEPT WASHDC

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E.O. 11652: N/A

TAGS: EFIN, IT

SUBJECT: ITALIAN ECONOMIC STABILIZATION PROGRAM: CREDIT
POLICY AND BALANCE OF PAYMENTS DEVELOPMENTS

REF A. ROME 8551 DATED 20 JUNE 1974

B. ROME 9628 DATED 12 JULY 1974

1. SUMMARY. ON JULY 12 GOI FINANCE MINISTERS
REVIEWED PREVIOUSLY-AGREED CREDIT MEASURES WHICH
COMPLEMENT FISCAL PORTION OF STABILIZATION PROGRAM.
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IT WAS CONFIRMED THAT WITHIN OVERALL CREDIT CEILING

ADDITIONAL CREDIT WOULD BE ALLOCATED TO SMALL AND MEDIUM INDUSTRIES, EXPORT FINANCING, AND INVESTMENT IN SOUTH. IMPACT OF IMPROVED BALANCE OF PAYMENTS SITUATION ON EASING ORDINARY CREDIT WAS ALSO DISCUSSED. MINISTERS UNDERSCORED NEED FOR NEW REVENUES FROM PROPOSED TAX INCREASES TO FINANCE TREASURY DEFICIT SINCE OTHER SOURCES OF FINANCING WOULD FUEL INFLATION OR TAKE FUNDS AWAY FROM PRODUCTIVE INVESTMENT. CREDIT PROGRAM IS TO BE REVIEWED BY INTER-MINISTERIAL COMMITTEE FOR CREDIT AND SAVINGS WEEK OF JULY 15. END SUMMARY.

2. TREASURY MINISTER COLOMBO MET SEPARATELY WITH GOVERNOR CARLI (BOI), GIOLITTI (BUDGET), TANASSI (FINANCE), AND MANCINI (FUND FOR THE SOUTH) ON JULY 12. MINISTERS REVIEWED CREDIT PROGRAM, WHICH HAD PREVIOUSLY BEEN AGREED AND APPROVED BY COUNCIL OF MINISTERS AND, WHICH WILL GO INTO EFFECT SUBSEQUENT TO APPROVAL BY INTER-MINISTERIAL COMMITTEE ON CREDIT AND SAVINGS SOMETIME THIS WEEK.

3. MINISTER COLOMBO REAFFIRMED THAT ADDITIONAL CREDIT WOULD BE MADE AVAILABLE TO SPECIAL CREDIT INSTITUTES FOR PURPOSES FOR EXPORT FINANCING, LOANS TO SMALL AND MEDIUM INDUSTRIES, AND INVESTMENT IN THE SOUTH, AS DESCRIBED REFTEL A. COMMERCIAL BANKS WILL BE REQUIRED TO INCREASE PURCHASES OF BONDS ISSUED BY SPECIAL CREDIT INSTITUTES BY 3 PERCENT SO THAT TOTAL HOLDINGS OF BONDS WILL EXCEED 1972 HOLDINGS BY 12 PERCENT OF DEMAND AND SAVINGS DEPOSITS AS OF DECEMBER 31, 1972. IT IS EXPECTED THAT THIS REQUIREMENT WILL RELEASE SOME 1,800 TO 2,000 BILLION LIRE OF ADDITIONAL CREDIT. BOND ISSUE OF 500 BILLION LIRE WILL BE IMMEDIATELY PLACED ON MARKET. HALF OF PROCEEDS WILL GO TO MEDIO CREDITO CENTRALE FOR EXPORT FINANCING AND BUSINESS LOANS AND HALF TO SPECIAL CREDIT INSTITUTES FOR CREDIT TO THE SOUTH.

4. EASING OF ORDINARY CREDIT

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OF BALANCE OF PAYMENTS

DEVELOPMENT WAS ALSO DISCUSSED. SINCE MID-JUNE, BALANCE OF PAYMENTS HAVE SHOWN WHAT IS BEING DESCRIBED IN LIMITED OFFICIAL USE

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FINANCIAL PRESS AS AN "INVERSION OF TENDENCY," HAVING SHIFTED FROM BEING HEAVILY IN DEFICIT IN MAY TO CLOSER TO EQUILIBRIUM BY END OF JUNE. (COMMENT: PRELIMINARY MONETARY MOVEMENTS DATA SHOW THAT DEFICIT FOR JUNE WAS 384 BILLION LIRE COMPARED TO MAY DEFICIT OF 679 BILLION LIRE). LESSING OF BALANCE OF PAYMENTS DEFICIT IS ATTRIBUTED TO 39 PERCENT DROP IN RATE OF MEAT IMPORTS, 9 PERCENT DECLINE IN IMPORTS OF PETROLEUM PRODUCTS, SLOWING IF IMPORTS DUE TO DOMESTIC

CREDIT IMPACT OF 50 PERCENT IMPORT DEPOSIT, DECLINE IN RAW MATERIAL PRICES, AND SEASONAL FACTORS; IE, SUMMER TOURIST SEASON AND SLOWING IF IMPORTS DUE TO DECLINES IN BUSINESS ACTIVITIES AS A RESULT OF SUMMER VACATION. DECLINE IN BALANCE OF PAYMENTS DEFICIT MEANS THAT MORE LIQUIDITY IS AVAILABLE TO BANKING SYSTEM AND SOME EASING OF TIGHTNESS IN CREDIT MARKET IS EVIDENT FROM DECLINE OF INTRA-BANK RATE FROM 19.5 PERCENT TO 17.5 PERCENT.

5. IN WHAT APPEARS TO BE EFFORT TO DAMPEN EXCESSIVE OPTIMISM RESULTING FROM REPORTED BALANCE OF PAYMENTS IMPROVEMENT, MINISTER COLOMBO POINTED OUT THAT PROBLEM OF FINANCING TREASURY DEFICIT REMAINED. FINANCING OF DEFICIT WOULD BE INFLATIONARY IF ACHIEVED THROUGH EXPANSION OF LIQUIDITY OR ALTERNATIVELY, WOULD THREATEN PRODUCTIVE INVESTMENT IF TREASURY ENTERED FINANCIAL MARKET IN COMPETITION WITH PRIVATE ENTERPRISE FOR FUNDS. ONLY LOGICAL SOURCE OF FINANCING IS PROPOSED TAX PROGRAM.

6. COMMENT. COLOMBO'S REMINDER THAT FISCAL PACKAGE REMAINS CRUCIAL TO ECONOMIC STABILIZATION PROGRAM IS PROBABLY A RESPONSE TO THE TENDENCY BY SOME POLITICAL FIGURES TO SEIZE UPON VERY MODEST IMPROVEMENT IN JUNE BALANCE OF PAYMENTS FIGURES. THE STRONG SEASONAL FACTORS IN JUNE MAKE IT FAR TOO EARLY TO DETERMINE WHETHER THIS MOVEMENT OF ITALY'S BALANCE OF PAYMENTS TOWARDS EQUILIBRIUM IS TEMPORARY OR BEGINNING OF A TREND.

7. PARLIAMENTARY CONSIDERATION OF GOI FISCAL PACKAGE IS BEGINNING TO LOOK LIKE A LONG, DIFFICULT PROCESS WITH FURTHER INTER-PARTY NEGOTIATIONS AIMED AT MODIFYING PACKAGE, ESPECIALLY IF NEED FOR DECISIVE ACTION IS PERCEIVED AS BEING REDUCED. IF THIS OCCURS AND IMPACT OF FISCAL PROGRAM ON LIMITED OFFICIAL USE

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ECONOMY IS SOFTENED, IT IS ALMOST CERTAIN THAT GOVERNOR CARLI WILL AGAIN FEEL IT NECESSARY TO TAKE STEPS TO TIGHTEN DOMESTIC CREDIT. VOLPE

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